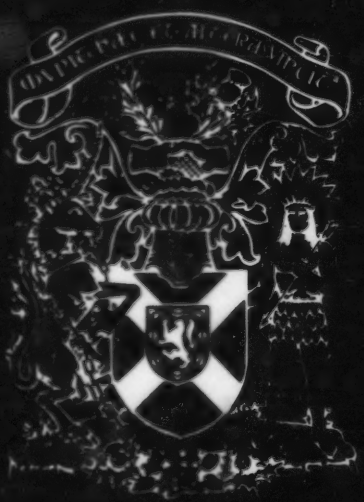
NOVA SCOTIA MUNICIPAL FINANCE CORPORATION



10th ANNUAL REPORT
1989

90-06594/

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HOW THE CORPORATION FUNCTIONS

AUTHORITY

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989.

PURPOSE

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards, and hospitals by issuing its securities and relending the funds to these entities.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province, or other municipalities within the province.

ADMINISTRATION

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty per cent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by the Corporation and/or the borrowing units.

Support staff and resources of the provincial Departments of Attorney General, Finance, and Municipal Affairs have been provided to the Corporation.

The Corporation office is located at:

1701 Hollis Street
Suite 302
Halifax, Nova Scotia

The mailing address is:

P.O. Box 850
Station M
Halifax, Nova Scotia
B3J 2V8

The telephone number is:

(902) 424-4590

The FAX number is:

(902) 424-0525

DIRECTORS AND OFFICERS

DIRECTORS OF THE CORPORATION

Richard S. Brookfield, F.C.A.	Chairman and Chief Executive Officer
Edgar G. Cramm, M.P.A.	Director, Finance and Advisory Services Department of Municipal Affairs
Douglas McC. Carter	Mayor of Truro, Nova Scotia
R. Wendell Phinney	President, Phinney Holdings Limited Kentville, Nova Scotia
Harold A. Renouf, O.C., F.C.A., LL.D.	Business Consultant, Halifax, Nova Scotia

OFFICERS OF THE CORPORATION

Secretary	R. Mark Gilbert, M.B.A. Municipal Advisor Department of Municipal Affairs
Treasurer	Shirley L. Carras, C.A.
General Counsel	James G. Spurr, M.B.A., LL.B. Financial Counsel Department of the Attorney General
Assistant Treasurer	Richard W. McAloney, C.A., C.I.A. Manager of Trusts and Financing Department of Finance

DIRECTORS' REPORT

MARKET CONDITIONS

There was a wide variance in interest rate swings during 1989 as concerns of inflation dominated the bond market over much of the year. Interest rates were at their highest in mid-March. At that time market analysts were predicting that rates would not decline until after the second quarter of 1989. However, by the end of March the economic news indicated that the economy was slowing down, thus reducing the fears of inflation. The resulting rally reduced bond yields, in August, to their lowest level of the year. Interest rates then began to climb during the rest of the year with the return of inflationary fears.

Throughout 1989 interest rates were higher for short-term issues than for longer-term bonds. This inverse yield curve continued throughout the year and was the longest in memory. Inverse yields were last experienced preceding the 1982 recession.

LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS

During the year long-term loans were made to 23 municipal units, 13 school boards, and 5 hospitals, totalling $83,689,378. These loans were used for the following purposes:

	Projects Administered by Departments of		
	Municipal Affairs	Education	Health & Fitness
Schools	$	$38,700,960	$
Hospitals			16,165,699
Water	1,635,000		
Sewer	1,644,600		
Streets	6,580,200		
Buildings	6,939,819		
Land	5,738,000		
Electric	475,000		
Equipment	1,381,400		
Recreation	1,644,200		
Solid waste	1,215,000		
Sewage treatment	40,000		
Transit	1,202,000		
School transportation	142,300		
Housing	185,200		
	$28,822,719	$38,700,960	$16,165,699
Number of Loans	26	25	5

Interim loans totalling $2,275,000 were made during the year to 2 municipal units. These loans were repaid from the proceeds of long-term loans made to these units.

BORROWING PROGRAM

Two debenture issues in the domestic Canadian market totalling $83,100,000 during 1989 provided funds for the loans to municipal units, school boards, and hospitals. Both borrowings were 10-year public issues, the first being in April for $40.1 million at 11.25 per cent interest, and the second in November for $43.0 million at 10.5 per cent interest.

TRUST FUNDS UNDER ADMINISTRATION

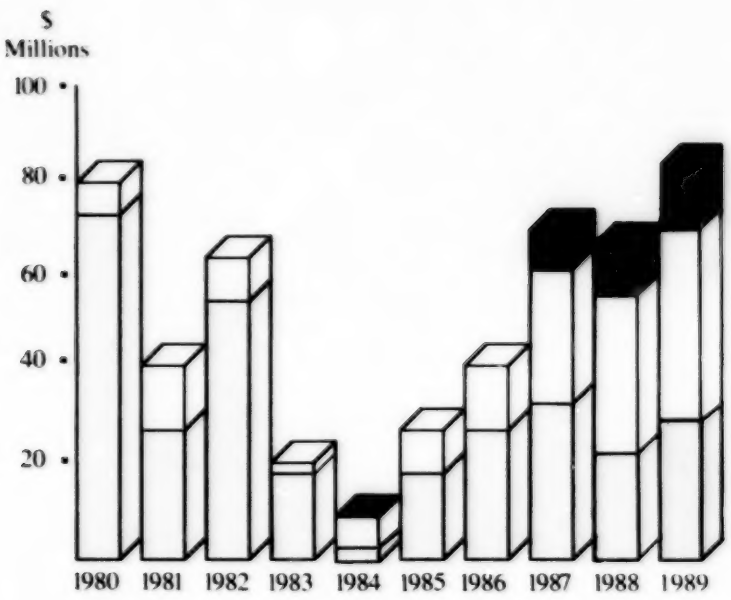
The Corporation administers sinking funds on behalf of municipal units and school boards. These sinking funds, which relate to loans to units, are to be applied to the repayment of these loans at maturity and will in turn provide the Corporation with the funds to repay the corresponding debenture issues on their respective maturity dates.

Following is a summary of the sinking funds for the year ended December 31, 1989.

	Trust #1	Trust #2	Trust #3	Trust #4	Total
			(in thousands of dollars)		
Loans to units	$ 35,000	$ 9,801	$ 583.0	$22,956.9	$68,340.9
Number of loans	10	6	2	32	50
Maturity dates	Dec. 22/96	July 12/92	Nov. 3/93	Nov. 3/98	
Sinking Funds					
Balance at Jan. 1/89	$11,024.1	$ 5,070.2	$ ---	$ ---	$16,094.3
Installments received	1,050.0	588.0	99.1	1,521.6	3,258.7
Income earned	1,270.3	602.8	1.5	19.5	1,894.1
Balance at Dec. 31/89	$13,344.4	$ 6,261.0	$ 100.6	$ 1,541.1	$21,247.1

In each of the 10 years since the Corporation commenced operations in 1980, long-term loans were made as depicted in the following chart:

LONG-TERM LOANS MADE DURING YEAR

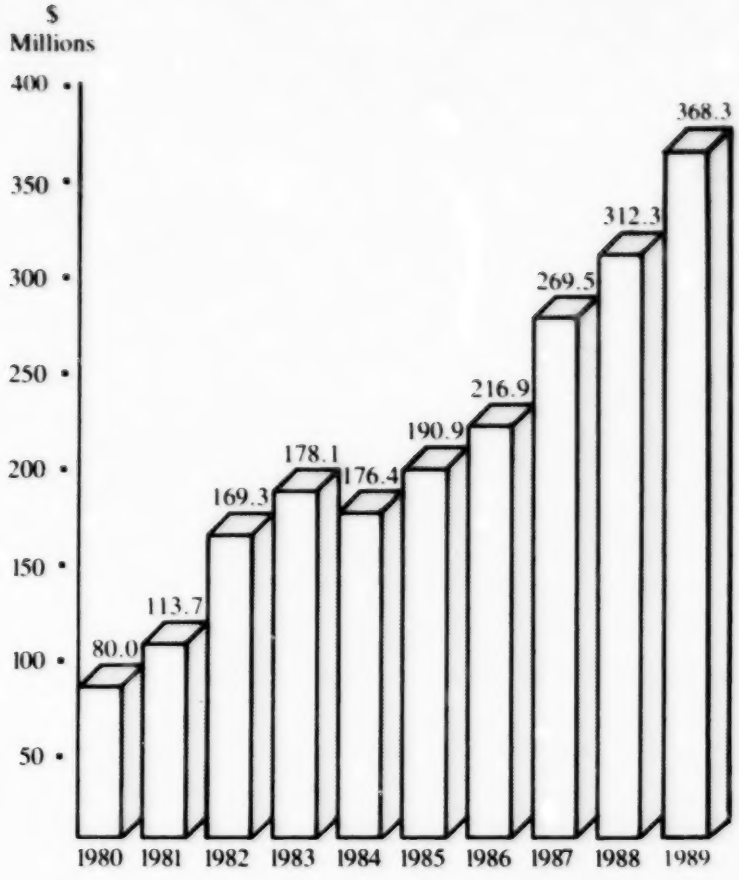


	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Municipal	74.1	29.9	51.7	17.6	2.1	15.8	26.9	31.7	21.2	28.8
School Boards	5.5	8.6	10.0	2.2	8.3	12.2	13.0	28.1	35.1	38.7
Hospitals	—	—	—	—	.4	—	—	10.1	10.3	16.2
	79.6	38.5	61.7	19.8	10.8	28.0	39.9	69.9	66.6	83.7

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans outstanding at December 31, 1989, amounted to $368.3 million, comprising $204.5 million to municipal units, $129.5 million to school boards, and $34.3 million to hospitals. The following chart shows the total loans outstanding at the end of each of the last 10 years:

LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS AS AT DECEMBER 31



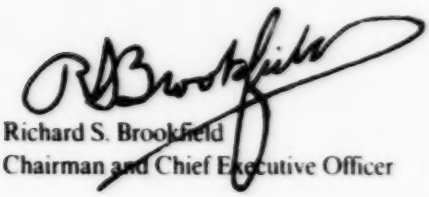
Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

COST OF ADMINISTRATION

In 1989 the Province of Nova Scotia continued to assume all the administrative expenses of the Corporation, as has been its practice in previous years. The administrative expenses, which totalled $225,062, were $13,638 under budget.

ACKNOWLEDGEMENTS

The Board of Directors wishes to express its appreciation for the continuing financial assistance provided by the provincial government. Special mention should be made of the excellent co-operation received from the Departments of the Attorney General, Education, Finance, Health and Fitness, and Municipal Affairs. Each of these departments has contributed the services of staff members, who have been of great assistance to the Corporation. The Directors also wish to acknowledge the excellent contribution made by the staff members of the Corporation.



Richard S. Brookfield
Chairman and Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1989

ASSETS

	1989	1988
CURRENT ASSETS		
Cash	$ 75,666	$ 14,325
Short-term investments, at cost which approximates market value	3,975,000	4,210,000
Accrued interest receivable	7,656,348	6,530,827
Principal due within one year on loans to units	27,592,789	27,635,923
	39,299,803	38,391,075
LONG-TERM ASSETS		
Loans to units (note 1)	368,335,534	312,282,079
Less principal included in current assets	27,592,789	27,635,923
	340,742,745	284,646,156
DEFERRED CHARGES		
Discount on debenture debt	1,340,760	1,340,760
Less accumulated amortization	991,081	897,479
	349,679	443,281
	$380,392,227	$323,480,512
TRUST FUND ASSETS (note 2)	$ 21,247,077	$ 16,094,286

APPROVED BY THE BOARD:

Director

Director

LIABILITIES AND EQUITY

	1989	1988
CURRENT LIABILITIES		
Accounts payable	$ 145,996	$ 99,004
Accrued interest payable	7,821,400	7,126,709
Principal due within one year on debenture debt	27,430,000	27,452,000
	35,397,396	34,677,713
LONG-TERM DEBT		
Debenture debt (note 3)	368,288,000	312,640,000
Less principal included in current liabilities	27,430,000	27,452,000
	340,858,000	285,188,000
DEFERRED CREDITS		
Discount on loans to units	1,337,282	1,343,640
Less accumulated amortization	1,005,823	913,828
	331,459	429,812
EQUITY		
Reserve Fund	3,805,372	3,184,987
	$380,392,227	$323,480,512
TRUST FUNDS UNDER ADMINISTRATION (note 2)	$ 21,247,077	$ 16,094,286

STATEMENT OF REVENUE, EXPENDITURE AND RESERVE FUND

YEAR ENDED DECEMBER 31, 1989

	1989	1988
REVENUE		
Interest on loans to units	$ 38,852,349	$ 32,853,074
Amortization of discount on loans to units	91,995	92,031
Interest on short-term investments	457,684	315,956
Current discount on loans to units	857,815	459,598
Grant, Province of Nova Scotia, for administrative expenses	225,062	214,412
	40,484,905	33,935,071
EXPENDITURE		
Interest on debenture debt and short-term loans	38,907,695	32,915,428
Amortization of discount on debenture debt	93,602	94,707
Interest on bank loan	---	417
Debenture issue expenses	638,161	477,325
Administrative expenses (note 4)	225,062	214,412
	39,864,520	33,702,289
NET REVENUE BEING AN INCREASE IN RESERVE FUND	620,385	232,782
Reserve fund at beginning of year	3,184,987	2,952,205
RESERVE FUND AT END OF YEAR	$ 3,805,372	$ 3,184,987

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1989

	1989	1988
CASH DERIVED FROM		
Net revenue being an increase in Reserve Fund	$ 620,385	$ 232,782
Add (deduct) items not involving cash		
Amortization of discount on loans to units	(91,995)	(92,031)
Amortization of discount on debenture debt	93,602	94,707
	621,992	235,458
Issue of debentures of $83,100,000 issued at par (1988, $66,600,000 net of discounts of $81,856)	83,100,000	66,518,144
Principal received on loans to units	27,635,923	23,788,049
	111,357,915	90,541,651
CASH APPLIED TO		
Loans of $83,689,378 to units on security of debentures, plus premium of $6,358 (1988, $66,585,910 net of discounts of $81,845)	83,695,736	66,504,065
Principal payments on debenture debt	27,452,000	23,503,000
Change in non-cash working capital	383,838	48,004
	111,531,574	90,055,069
INCREASE (DECREASE) IN CASH POSITION	(173,659)	486,582
Cash position at beginning of year	4,224,325	3,737,743
CASH POSITION AT END OF YEAR	$ 4,050,666	$ 4,224,325

Cash position is defined as cash plus short-term investments.

AUDITORS' REPORT

To the Chairman and Members of the Board of Directors of the
Nova Scotia Municipal Finance Corporation

We have examined the statement of financial position of the Nova Scotia Municipal Finance Corporation as at December 31, 1989 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Thorne

February 23, 1990

Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1989

GENERAL

Created by the Municipal Finance Corporation Act, which was proclaimed on July 31, 1979, the Corporation began operations on January 1, 1980 and its fiscal year-end is December 31. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(b) The Reserve Fund was created from interest earnings on funds which were advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to cover time lags between the payment dates of the Corporation's obligations and the dates payments are received from units, to provide interest rate stabilization, and to cover differentials in interest and amortization of discounts in loan operations.

1. LOANS TO UNITS

(a) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Provisions exist for the recovery of any defaults by units, therefore an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are:

1990	$27,592,789
1991	27,141,304
1992	36,304,079
1993	23,888,642
1994	24,014,496

2. TRUST FUNDS UNDER ADMINISTRATION

Trust Fund assets totalling $21,247,077 (1988, $16,094,286) are held on behalf of certain municipal units, district school boards and hospitals, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

3. DEBENTURE DEBT

(a) The debenture debt outstanding at December 31, 1989, totalling $368,288,000 (1988, $312,640,000) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
A	Jan. 4/80	1990 to 2000	11.250	$ 13,750,000
B	July 2/80	1990 to 2000	11.500-12.000	7,800,000
C	Dec. 19/80	1990 to 2000	13.375	13,750,000
D	Dec. 19/80	1990 to 2000	13.375	5,500,000
E	Sept. 10/81	1990 to 1991	17.500	1,205,000
F	Dec. 22/81	1996	15.000	35,000,000
G	Jan. 28/82	1990 to 1994	15.750	10,300,000
H	July 12/82	1992	15.500	10,000,000
J	Nov. 23/82	1990 to 1992	13.000	6,360,000
K	Sept. 7/83	1990 to 1998	11.750-12.750	8,600,000
L	Nov. 9/83	1990 to 1993	12.000	840,000
M	Aug. 28/84	1990 to 1999	14.000-14.250	5,500,000
N	Apr. 2/85	1990 to 2005	11.750-12.500	11,040,000
P	Dec. 11/85	1990 to 2000	10.250-11.000	7,500,000
Q	July 22/86	1990 to 1996	9.500-10.000	19,569,000
R	Nov. 5/86	1990 to 1996	9.750-10.000	10,135,000
S	May 14/87	1990 to 1997	7.750- 8.750	28,253,000
T	Dec. 15/87	1990 to 1997	9.750-10.750	27,862,000
U	May 11/88	1990 to 1998	9.375-10.375	17,414,000
V	Nov. 3/88	1990 to 1998	10.500-11.000	44,810,000
W	Apr. 26/89	1999	11.250	40,100,000
X	Nov. 16/89	1999	10.500	43,000,000
				$368,288,000

Interest is payable semi-annually.

(b) Principal payments due in each of the next five years are as follows:

1990	$27,430,000
1991	27,023,000
1992	36,372,000
1993	23,723,000
1994	22,786,000

4. ADMINISTRATIVE EXPENSES

	1989		1988
	Budget	Actual	Actual
Salaries and benefits	$193,400	$183,562	$173,220
Travel	5,500	3,089	2,575
Equipment and maintenance	4,200	3,131	7,114
Printing	2,300	1,993	2,071
Postage	3,300	2,987	2,199
Telephone	4,200	3,424	3,437
Stationery and supplies	2,500	3,456	3,411
Professional services	8,000	7,400	7,959
Bank charges	3,400	5,349	4,020
Directors' fees and expenses	4,000	3,195	2,868
Professional development	2,300	1,382	649
Dues and subscriptions	2,220	2,311	2,068
Insurance	765	1,676	721
Other	2,615	2,107	2,100
	$238,700	$225,062	$214,412

Certain of the above 1988 figures have been reclassified to conform with the presentation adopted for 1989.

5. INCOME TAXES

The Corporation is not subject to provincial or federal income taxes.